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MONEY, BANKING, AND CREDIT IN MEDIEVAL BRUGES

Italian Merchant-Bankers, Lombards, and Money-Changers

A PART OF A DISSERTATION SUBMITTED TO THE FACULTY OF THE DIVISION OF THE SOCIAL SCIENCES IN CANDIDACY FOR THE DEGREE OF DOCTOR OF PHILOSOPHY

DEPARTMENT OF ECONOMICS

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Reprinted from
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The Money-changer and His Customer

by Marinus van Reymerswael

(Royal Gallery, Windsor Castle)

See page 13

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Money, Banking, and Credit in Medieval Bruges [1]

IN any economic system, whether medieval or modern, "money, banking, and credit," are so closely connected and interwoven that they cannot be separated. Banking involves the extension of credit, and credit leads to the creation of additional purchasing power or, to use a different phrase, of money substitutes. The importance of credit and banking in medieval times should not be underrated, as is sometimes done by placing undue emphasis on later developments in England. Professor Usher is preparing a treatise on the early history of banking in Italy and Spain. This paper, which summarizes the results of a similar investigation into the origins of banking in Bruges, will therefore supplement Professor Usher's work, as far as the development of banking in the Low Countries is concerned.

I

During the Middle Ages, there existed in Bruges three different classes of money-dealers: the Italian merchant-bankers, the lombards, and the money-changers. The best approach to the subject is, therefore, to deal separately with each of these three groups. As they did not all enjoy the same legal status, it will further be necessary to say a few words on this topic before proceeding to a more extensive discussion of the financial activities of each group.

The development of banking and credit in Flanders coincided with the rise of a class of professional money-dealers. Such a class did not appear in Flanders until the end of the thirteenth century. It is true that there are scattered references to money-lending in the chronicles of the early Middle Ages. It would be rash to contend that the Benedictine abbeys of this period were more than casual lenders, since obviously money-lending was not the full-time occupation of the monks. As for usurers, their activity aroused the pious indignation of the chroniclers, but it is doubtful whether credit transactions of these usurers or *foeneratores,* as they were called, ever assumed a professional character. In the closed economy of the early Middle Ages, money-lending was often a by-employment intertwined with petty trade transactions and concealed

[1] This brief survey contains no reference to sources. The facts and the supporting evidence are given in a more extensive study which I expect to publish in the near future.

under the form of credit sales and other devices. Even the important *financiers d'Arras* of the thirteenth century were not professional lenders. As Pirenne has pointed out, the *financiers d'Arras* never formed partnerships and never accepted deposits. The *financiers d'Arras* lent only their own funds and were not even in active business relations with the Italian bankers who had chosen the fairs of Champagne as their base of operation.

The origins of banking in the Low Countries date from the decline of these famous fairs and of the traveling trade which centered around them. The Italian merchant-bankers, instead of sending their representatives to the fairs, began to establish permanent agencies in Bruges at the end of the thirteenth century. This development itself was the result of important changes in commercial practices and of considerable progress in business administration.

As soon as the Italians established themselves in Flanders, they tried to obtain commercial privileges from the local authorities, the count of Flanders and the city of Bruges, and to secure official recognition of their organization into "nations" or merchant colonies headed by a consul. In Bruges the merchants of Genoa, Venice, Florence, Lucca, and Milan formed separate "nations," although they occasionally presented a united front when their common interests were at stake.

The trade privileges granted to the Italian merchants by the count of Flanders and the city of Bruges were embodied in charters whose clauses were frequently the object of lengthy diplomatic negotiations. The purpose of these trade privileges was to protect the merchants against any arbitrary action on the part of the local authorities, to fix the tariff of tolls and port dues, and to regulate certain matters with regard to shipping. It is important to note that the trade privileges did not contain a single word about financial transactions, probably because the dealings of the Italian merchant-bankers were international in scope and therefore could not be regulated by authorities with only local powers.

The Italian merchants, according to their trade privileges, were considered as aliens and were not eligible to municipal offices, but they enjoyed what was equivalent to extra-territorial rights. At the head of each Italian "nation" was the consul, usually assisted by two or more councillors. The consul acted as diplomatic agent in any questions involving the Flemish authorities, whereas, for the Italians, he was the lawful representative of their home government. Legal disputes between members

of the same "nation" usually were settled by the consul and his council.

In Bruges the Italian consular houses were located on the Place de la Bourse in the heart of the business district. The French word *"bourse"* is derived from the name of this public square which was, all through the fourteenth and fifteenth centuries, the favorite meeting place of the Italian merchants. Normally the big Italian banking and trading companies had their headquarters in Italy, but they were represented in Bruges and in other commercial centers by resident partners, agents, or correspondents. From a legal, but not from an administrative, point of view, there were two different types of organization: a centralized type and a decentralized type.

II

The organization of the Peruzzi Company is a good example of the first of these two legal types. There was only one Peruzzi Company, and members of the Peruzzi family owned a majority of the capital up to 1331. The company had a great number of agencies in foreign parts, including one in Bruges. These agencies were managed by a factor who was always a salaried employee. It did happen occasionally that a partner went abroad to serve the company in the capacity of factor or manager of one of the agencies. In such a case, he would receive a regular salary in addition to the share in the profits to which he was entitled as a partner. Thus Giovanni Villani, the famous Florentine chronicler, who, in 1306, represented the Peruzzi as factor in Bruges, was at that time also a partner with a minor share in the capital.

The legal structure of the Medici banking house differed entirely from that of the Peruzzi Company. Instead of forming one unit, the firm was composed of several independent partnerships, each of them being a separate legal entity. Unity in policy was achieved by the Medici family having a controlling interest in the capital of each affiliate. A distinct partnership was formed for each agency established abroad. The agencies were not managed by factors, but by junior partners who were not paid a fixed salary, but received a share in the profits of their agencies. The managing partner had the title of *governatore*. In 1466, the staff of the Bruges agency of the Medici banking house included the branch manager and junior partner, Tommaso Portinari; an assistant-manager, Antonio de' Medici; five factors or employees; and one *giovane* or office boy.

From the administrative point of view, there was of necessity a great deal of decentralization regardless of legal structure. Because of the slowness of communications, branch managers had to be given a free hand within the framework of the general policy determined by headquarters in Italy. In the case of the Medici, the senior partner assumed the responsibility for all decisions of policy, whereas in the case of the Peruzzi Company, major decisions were submitted to a council of all partners residing in Florence. In both firms, specific instructions outlined the policy which the branch managers, whether partners or factors, were expected to follow in the management of their agencies.

The capital or *corpo* of the large Italian mercantile and banking firms was only a small part of the total investment in the business. Most of their working capital consisted of funds invested *fuori del corpo* or *sopracorpo,* that is above and beyond the capital. This *sopracorpo* was composed of three elements: (a) of funds provided by the partners in addition to their share in the capital, (b) of reinvested earnings, and (c) of money supplied by outsiders against a fixed return per year.

III

The financial activity of the Italian merchant-bankers in Bruges was mainly confined to dealings in bills of exchange and to loans to the count of Flanders, to the city of Bruges, and to great lords, temporal and spiritual. Medieval bills of exchange, it should be stressed, were not endorsable and were not discounted, but were purchased outright. Buying a foreign bill was equivalent to the purchase of foreign exchange. Such a transaction necessarily involved the extension of credit, because the buyer of a bill made an advance of money to the seller in order to be repaid at a future date and in a different place.

A typical medieval bill of exchange involved four persons and two payments: usually a *datore,* "deliverer," or remittor (1) bought a bill for ready cash from a *prenditore,* "taker" or drawer (2) who drew on one of his correspondents abroad; at maturity this correspondent, called payor (3), was expected to pay a given amount in foreign currency to the payee (4) in whose favor the bill had been made out. Most bills were payable at usance. In the fourtenth century, the usance between Bruges and Barcelona was thirty days after sight. Between Bruges and most Italian centers, including Florence, Genoa, and Venice, the usance was two months after date.

Because of this time interval, the exchange rates always included interest and rarely stood at par. Usually the *prenditori* or takers, in order to obtain a given sum in local currency, had to promise more than the equivalent in foreign currency payable abroad at a future date. It is clear from numerous business letters written by Italian merchant-bankers in Bruges to correspondents in other places that the fluctuations in the exchange rates were governed by the supply and demand for foreign balances. If money was scarce in Bruges, for example, there would be a *datore's* market, and the interest rate, as reflected in the movement of the foreign exchanges, was likely to rise. In such a case the *prenditori* or takers would be forced to sacrifice a larger quantity of foreign currency for the same sum of money on the spot. Bankers were usually *datori,* but they sometimes became *prenditori,* if they needed money in Bruges and if idle balances were accumulating abroad. The fact that the exchange rates included interest goes a long way toward explaining the concern of the later mercantilist writers with the exchange rates.

As has been pointed out, a typical medieval bill of exchange involved four persons, but two of them could be the same firm or individual. A number of Bruges bills of the fourteenth century are made out *a voi medesimi* (to yourselves). Such bills were payable by a transfer in the books of the payor—who was also the payee—by writing the amount stated in the bill to the debit of the *prenditore's,* and to the credit of the *datore's,* account. If the *datore* and the payee were the same individual, the bill would closely resemble a letter of credit.

The extensive use of bills of exchange in international settlements largely eliminated the necessity of shipping specie and thus increased the velocity of circulation. For this reason medieval bills of exchange should be considered as money substitutes, although they did not circulate by way of endorsement. The practice of settling foreign debts by bills of exchange resulted in the automatic adjustment of international balances. The system also provided a self-regulating mechanism of the international distribution of specie, because any disequilibrium was likely to react immediately upon the exchange rates. If they deviated from par beyond the specie points, such a condition would make it profitable to export or to import specie rather than to buy or sell bills.

IV

The Italian merchant-bankers also made loans to rulers and other public authorities. Such transactions, especially the loans to ruling

princes, were dangerous since they tied the lender to the political fortunes of the borrower. War was an important factor. If a ruler became engaged in a major war, the repayment of loans to merchants was likely to be postponed indefinitely. The disastrous liquidation of the Bruges agency of the Medici was mainly due to excessive credits granted by Tommaso Portinari, the local manager, to Charles the Bold and his impecunious successor, Maximilian of Austria. The military adventures of Charles the Bold were naturally the determining cause of the financial difficulties of the government of the Low Countries.

Banking was only one aspect of the many-sided activity of the Italian merchant-bankers. Even the Medici, the great banking house of the fifteenth century, combined banking and trade, but banking remained of secondary importance: trade came first; banking, next; and commissions, third. The Bruges documents entirely confirm the theory of Professor Gras concerning the lack of specialization of the "sedentary" merchant in medieval times.

V

Besides the Italian merchants and merchant-bankers, there resided in Bruges another class of Italian money-dealers. These were generally known under the name of lombards or "Cahorsins." They specialized in pawnbroking and appeared in Flanders at the end of the thirteenth century along with the other Italians. As money-lending was frowned upon by the Church, the lombards were only tolerated as a necessary evil. They were needed, feared, and hated at the same time.

The lombards came mostly from the towns of Chieri and Asti in Piedmont. Like the Italian merchants, the lombards were aliens, but they were not protected by trade privileges. The lombards operated their pawnshops under a license-system. As far back as the beginning of the fourteenth century, licenses were granted by the public authorities—the count of Flanders and the city of Bruges—against the payment of an annual fee. The licenses placed the lombards under the direct protection or guardianship of the ruling prince. The lombards were granted some privileges in the matter of criminal procedure and were exempt from the *droit d'aubaine* and from *ost et chevauchée*. If licenses were revoked, a six months' notice had to be given in order to enable the lombards to wind up their business before leaving the country. The earlier licenses specifically excluded "manifest" usury as a permissible occupation, but limited the fine to a ridiculously low figure. The later licences,

those of the fifteenth century, cast all false pretenses aside and explicitly allowed the lombards to lend "money for more money" (Fr. *argent pour argent,* Fl. *geld om meer geld*). Socially, the lombards were ostracized and considered as public sinners and manifest usurers.

The pawnshop of the lombards in Bruges was located behind the choir of the church of St. Gilles in an outlying and quiet district toward the Porte St. Léonard or Porte de Damme. According to a map of the city of Bruges, and other documents, the residence of the lombards was evidently a large establishment, the reason being that they needed considerable space for the storage of pawned articles which ranged all the way from jewelry to cumbersome kitchenware and furniture.

There is no doubt that the lombards specialized in consumers' credit. Most of their loans were secured by pledges of personal property. The lombards lent to all classes from the count of Flanders down to humble weavers and journeymen, but the bulk of the lombards' business came from small borrowers. Craftsmen sometimes pawned their tools in times of unemployment, a practice that led to much hardship, if the borrowers were unable to redeem their tools once they found work again.

According to the licenses, the lombards were allowed to charge interest at the weekly rate of 2*d.* per pound or 43⅓ per cent a year. This outrageous rate has aroused the indignation of clergymen and well-meaning historians. One should not overlook, however, that the interest on loans made by the lombards had to cover all incidental expenses including storage charges, rent, wages, license fees, and other overhead expenses. It is likely that the net profits of the pawnshop were not higher than those of other business enterprises. In many states of the Union, today, the legal rate which pawnshops and small loan companies are allowed to charge is as high as three percent a month or thirty-six per cent a year. Inquiries made in this country by the Russell Sage Foundation have established that such enterprises cannot operate profitably at a lower rate. Conditions with regard to consumers' credit have apparently not changed very much.

As credit instrument, the lombards used some kind of a receipt (Fr. *reconnaissance,* Fl. *wockerbriefje* or *lombaardbriefje*) similar to the modern pawnticket. Only in the case of important loans did they resort to more formal contracts such as the chirograph or letter obligatory

drawn up by municipal officers in the presence of at least two aldermen. Notaries were not as popular in Flanders as in Italy.

Pledges which were not redeemed within one year and one day were simply forfeited. The licenses provided that the lombards were entitled to repayment of their advances even if they had lent money on stolen goods. The owners, in other words, could not claim restitution of their property unless the lombards had been fully repaid.

VI

Unlike the Italian merchant-bankers and the lombards, the money-changers were not aliens, but were required to be citizens. A foreigner who had acquired rights of citizenship could, of course, become a money-changer. Except for an occasional Italian, most Bruges money-changers were either Flemings or Wallons, if the list of their family names is a reliable guide. Because money-changers were citizens, they were naturally eligible to municipal offices. Women were not excluded from the profession; indeed there are several examples of widows who carried on the business of their deceased husbands.

The money-changers enjoyed the same rights as other citizens, but they assumed some additional duties with regard to their profession. These duties are set forth in the monetary ordinances of the period. The money-chnagers had to take an oath of office and to promise that they would comply with the monetary ordinances. Accordingly the money-changers were liable to severe penalties, if they were found guilty of picking or culling the money, of clipping coins, of exporting bullion, or even of bringing forbidden coins into circulation. The money-changers performed a quasi-public function, hence the authorities relied on them for the enforcement of the monetary ordinances. As was to be expected, this reliance was not always justified.

In Bruges the number of money-changers was limited. In the fourteenth century, there were fifteen or sixteen money-changers, but their number dropped to four in the course of the fifteenth century. The reason for this decline will be given later.

The offices of the money-changers in Bruges were located near, and on, the Pont-aux Changes, at the northeastern corner of the Grand' Place, in the center of the city not far from the two cloth halls and from the consular houses of the Italian merchants. In marked contrast with the large establishment of the lombards these offices were small

shops. The money-changers, consequently, did not have the facilities to engage in pawnbroking on an extensive scale. Had they taken such a step, they would have ruined their business anyhow by undermining the confidence of their customers.

VII

We are well-informed concerning the activities of the Bruges money-changers owing to the survival of the account books of two of them. In the municipal archives in Bruges, there are extant: one ledger of a money-changer named Guillaume Ruyelle; and two journals, five ledgers, and two alphabetical indices of another named Collard de Marke. There are two complete sets including the journal, the ledger, and the corresponding alphabetical index. One original balance sheet relating to Ruyelle's ledger is also extant. Furthermore, it was not difficult to copy the balances of the accounts open in the ledgers of Collard de Marke on five different dates. The Collard de Marke and Guillaume Ruyelle records cover a period from 1366 to 1371.

The entries in the journals are strictly in chronological order. From the journal the entries were posted to the ledger. The ledgers contain only personal accounts; there are no impersonal accounts either for tangible assets, expenses, or operating results. Although double-entry bookkeeping was already known to the Italians, Collard de Marke and Guillaume Ruyelle kept their books in single entry.

One of the Collard de Marke ledgers contains as many as eleven hundred accounts, a figure which gives some idea of the importance of the money-changers' business. It is true that many accounts were those of casual customers, but Collard de Marke had at least two hundred regular clients. When one considers that the population of Bruges in the fourteenth century was not higher than forty thousand inhabitants, probably one person in forty or in thirty-five had a bank account. Having a bank account was thus more common than one would suspect.

The account books of Collard de Marke and Guillaume Ruyelle dispel all uncertainty regarding the nature of their business. It is clear from these records that the Bruges money-changers in the fourteenth century were bankers who combined dealings in exchange (not in bills of exchange) with deposit banking. The offices of the money-changers were commercial banks which operated on a fractional reserve principle, since their cash reserves covered only in part the liabilities to depositors.

Let us now examine successively the three main functions performed by the money-changers: the trade in money and bullion, the deposit business, and the lending or investing of surplus reserves.

VIII

The trade in money and bullion, the first of these three functions, involved much more than the petty exchange of coins. The money-changers formed the link between the public and the mint; indeed the existence of such a link was essential to the smooth operation of the money market.

In the Middle Ages, Flanders was on a silver standard with the groat as the monetary unit. Twelve groats were equal to one shilling groat; and two hundred forty groats, to one pound groat of twenty shillings. Gold coins circulated at official rates of so many groats apiece. It was clearly beyond the power of the monetary authorities to set arbitrary rates whatever the feudal theory on the matter. Rates had to be set with due regard to the gold content of a given coin, to the silver content of the basic unit (the groat), and to the market ratio between gold and silver. If there was a change in any of these three elements, the official valuation of the gold coins had to be revised. The result of this system was that gold and silver were not freely exchangeable, that is without payment of a fee to a money-changer. If a depositor had made a deposit in silver, he could withdraw his deposit in the same kind of currency, but if he wanted gold instead of silver, he had to pay a fee.

According to the monetary ordinances, the money-changers were expected to deliver to the mint all the bullion they purchased from the public. In fact, the money-changer did so only as long as the market price for bullion did not rise above the mint price. This was likely to happen if specie was being sent abroad because of an unfavorable balance of payments. As a result, bullion would cease to flow into the mint, and the mint would be forced to suspend operation. Because medieval minting was farmed out, the stoppage of the work at the mint was one of the main causes of debasement. Debasement is the same thing as devaluation and consists in reducing the silver or gold content of the monetary unit.

As prices and wages were rigid, debasement resulted in an artificial lowering of the price level. For this reason debasing the currency was likely to set in motion forces which would relieve the strain on the

money market and stop the drain of bullion. The mint also would be able to resume operation, because debasement made reminting profitable. There is little doubt that monetary stringency of a recurrent character rather than any long term trend was the fundamental cause of medieval debasements.

The opposite of debasement would be raising the standard by increasing the gold or silver content of the monetary unit. On two or three occasions, the dukes of Burgundy actually succeeded in raising the standard of the groat and in maintaining this standard for a number of years. Such raises called for a downward adjustment of prices and wages. But, as prices were sticky, any deflationary reforms of the currency had disastrous results. In Bruges the reform of 1390 led to riots, and the city treasurer was nearly killed by an angry mob. There were also loud complaints about persistent labor troubles, bad times, and the crushing burden of debts.

If specie were needed in order to meet payments abroad, merchants were likely to take it out of their bank accounts, and the inevitable result would be a drop in the reserve ratio of the banks. As medieval bankers were not able to contract their loans and their investments easily, they could be relied upon to favor debasement whenever the strain on the money market became severe.

The merchant manuals of the Middle Ages refer to this phenomenon and state explicitly that, in times of monetary stringency, specie enters into circulation and flows out of the banks.

IX

Bank deposits in Bruges were used extensively as a means of payment. According to the account of Collard de Marke and Guillaume Ruyelle, payments by book transfer exceeded by far the number of payments in cash. The inescapable conclusion is that a great number of payments—certainly most payments among businessmen—were made by "assignment in bank." As bank deposits were readily transferable, they should be considered as another form of money or as bank money, to use Adam Smith's expression.

Medieval people did not make use of checks. As Professor Usher has emphasized some years ago, in an article published in the *Economic History Review,* book transfers were made on the strength of an order given by word of mouth, both debtor and creditor being present. The

[illegible] oral orders to their bankers under the direction of the owner or assignee. Transfer orders were often carried out without the creditor or assignee being present, but the Bruges court ruled in a famous case that payment was incomplete without his consent. The Florentine bankers also required the presence and the consent of the creditor (presente et volente creditore).

It is not possible to examine in detail the accounting procedure which was followed by the money-changers in making transfers, but the entries in the books of Gillard de Mares and Guillaume Boyelle suggest either the use of checks or of orders given by words of mouth. In one case, the same sum of money is transferred four times in one day. The frequency and number of transfers evidently necessitated the use of efficient and time-saving methods for we know from other sources that checks or written commands to pay were not used except by non-resident merchants. We have to admit the existence of orders given orally as the only possible procedure.

Pictorial evidence concerning the existence of oral contracts is given by some paintings of the Flemish school. They are the work of a painter named Marinus van Reymerswael who migrated with some changes the famous canvas of Quentin Matsys, "The Banker and his Wife," which was in the Louvre before the present war. Several of van Reymerswael's paintings represent a banker or a money-changer sitting behind a table with various coins—apparently a customer. The money-changer is writing something in a book, similar in shape to Gillard de Mares's journals under the dictation of the other man. The act of delivering is apparently performed by the facial expression, the position of the hands, and the whole attitude of the man who has been identified as a client.

In Bruges it was not only possible to transfer credit when the debtor and the creditor were both clients of the same money-changer, but also when the debtor was the client of one money-changer, and the creditor, the client of another money-changer. It is false to contend that a bookcurrency system could not operate effectively without a centralized clearing system. On the contrary, such a system did operate effectively in medieval Bruges because all the money-changers were in account with one another. There were [illegible] money-changers in Bruges at the time of Gillard de Mares. His ledger significantly contains frequent clearing accounts with other money-changers.

X

The money-changers did not discount or purchase bills of exchange, but extended credit by allowing customers to overdraw their accounts. Most overdrafts in the Collard de Marke and Guillaume Ruyelle ledgers were apparently in the name of merchants and other businessmen. The money-changers also invested money directly in business enterprises or in commercial ventures, usually by entering into partnership with a merchant. The assets of the Bruges banks were consequently not liquid. This lack of liquidity, it should be stressed, was a serious flaw in the credit structure. As there existed no central bank and no facilities for rediscounting, medieval banks had to rely exclusively on their cash reserves and were unable to contract in the face of a tightening money market. No wonder that the bankers were in favor of debasement whenever their cash reserves were nearing exhaustion.

As the medieval money-changers operated on a fractional reserve principle, and as bank deposits were currently used as a means of payment, there is not the slightest doubt that the banks in the Middle Ages created money by their lending and investing activity as effectively as if they had been given the privilege to issue notes. There is general agreement among economists that bank deposits and bank notes are fundamentally identical and form part of the circulating medium. Furthermore, it makes no difference from the point of view of an economist whether the banks use their funds in credit transactions or invest deposits directly in business enterprises. In both cases additional money gets into circulation through the operation of the banking system.

In the fifteenth century the Flemish authorities became increasingly hostile toward banking and tried by every means to root it out. Any one who dared deposit money with a money-changer became liable to a heavy fine. These drastic measures must have succeeded in the end, because the number of money-changers doing business in Bruges declined rapidly in the course of that century.

XI

To conclude, there were in Bruges three different groups of money-dealers. They should not be confused. The lombards were mainly pawnbrokers and their importance for the further development of banking is nil. The credit transactions of the lombards resulted only in the transfer of purchasing power, not in the creation of additional

purchasing power or of money substitutes as was the case with the Italian merchant-bankers and with the money-changers. The merchant-bankers limited their activity to foreign trade and to international finance, especially to dealings in bills of exchange. The offices of the money-changers were local deposit and transfer banks. Collard de Marke and Guillaume Ruyelle did not have agents or correspondents abroad.

One source of confusion is due to the failure of historians to distinguish between lombards and Lombards. Italian merchants were often called Lombards whether they actually came from Lombardy or from some other part of Italy. The word "lombard," on the contrary, had the precise meaning of pawnbroker.

Judging by conditions in Bruges, credit played an important role in the more advanced commercial centers of medieval Europe. Although the bank note had not yet been invented, transferable bank deposits performed the same function. It is therefore not true that failure to invent the bank note hampered the development of capitalism in the Middle Ages.

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